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SUBJECT: CORRUPTION IN KHANH HOA PROVINCE: WILL THE BEACH BEAT BAD GOVERNANCE

REF: 04 HCMC 1359

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¶1. (SBU) Summary: On the central coast of Vietnam, Khanh Hoa province is well placed for growth with a strong base in tourism, aquaculture, and industry. Government and business leaders are concentrating on attracting foreign investment to large scale investment projects and economic zones. On a recent visit to Khanh Hoa, however, the Consul General found that corruption remains a pervasive problem. Some of the officials we met had been implicated in recent high profile corruption scandals. But instead of facing consequences, most remain in positions of power. The unfortunate example of Khanh Hoa is that of a province that has prospered on the basis of rampant corruption. End summary.

#### THE RUSALKA CORRUPTION SCANDAL IN KHANH HOA PROVINCE

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¶2. (SBU) Rusalka was a large-scale tourism complex planned for Nha Trang, the capital of Khanh Hoa in 2000. The deal finally collapsed in 2005. The scandal involved complex financial fraud in which local businessmen and officials have been accused of bribery and embezzlement. Duc Chi, a Vietnamese businessman with alleged connections to Russian organized crime, has been accused of illegal land deals and bribing local officials. The Ministry of Public Security (MPS) began investigating after information was leaked to the press in early 2005. Chi was arrested in June 2005. He has admitted to paying USD 700,000 in bribes to government officials. Just after assuming office in mid-2006, Prime Minister Nguyen Tan Dung called for prosecution and punishment of any officials at the Ministry of Planning and Investment (MPI) and the People's Committee of Khanh Hoa province who had helped Chi.

¶3. (SBU) After a flurry of investigations, and despite Dung's instruction, most of those implicated remain in important positions. Nguyen Trong Hoa served as Khanh Hoa Director of the Department of Planning and Investment prior to being promoted to Vice Chair of the People's Committee in 2003. He was close to the Rusalka deals in both positions. In 2006, he left he left the People's Committee and became the manager of the Van Phong Bay Economic Zone (VPEZ), the province's flagship project. Hoa told the Consul General that he had been handpicked by Prime Minister Dung to head the VPEZ. Pham Van Chi, another provincial leader implicated in the Rusalka case, resigned as

provincial People's Committee Chairman in 2003 and now heads a private company that facilitates investments also for the Van Phong Economic Zone (VPEZ). These two former government leaders are now competing with each other as they both seek out investors for the VPEZ.

VAN PHONG BAY: MORE CONTROVERSY IN KHANH HOA

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14. (SBU) The VPEZ is planned for a pristine deep water bay north of Nha Trang. VPEZ manager Nguyen Trong Hoa outlined the development plan for the economic zone for the CG. The project includes a deep-water container transshipment port, several industrial parks with adjacent urban areas, a ship-building site and several lots allocated for tourism development. The container port is located on the tip of a small peninsula that reaches out to the center of the bay. While the location of the port could endanger the environment of the whole bay, Hoa said the location was chosen because it is surrounded by the bay's deepest water and is closest to international waters. Hoa admitted he is not sure that the area could attract sufficient container traffic to make the port viable. The CG noted that another obstacle to the port's viability is the fact that the shortest route to and from the port is through a 600-meter wide passage between two islets.

NHA TRANG CABLE CAR: MORE MISMANAGEMENT IN KHANH HOA

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15. (SBU) The latest controversy to hit Khanh Hoa is the Nha Trang cable car, which connects the Vinh Pearl Resort on Hon Tre Island to mainland Nha Trang. At a height of 54 meters, the cable car may prevent larger cruise ships from visiting Nha Trang. According to press speculation the owners of the Vinh Pearl Resort, a Vietnamese group widely believed to have connections with Ukrainian organized crime groups, persuaded local officials to allow the construction of the cable car without proper clearances. In early March, the Prime Minister asked MPI for an explanation of the cable car scandal.

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16. (SBU) Khanh Hoa People's Committee Chairman Vo Lam Phi told the Consul General that the cable car system does not affect the ability of ships to enter the bay since it only obstructs the bay's south entrance; ships are still able to enter the bay through the north entrance. Phi opined that if ships are denied entry into the port, it was not due to the cable car but to the port authority restrictions. Since that time, the GVN's Ministry of Culture and Information has ordered that no further cars can be added to the cable car system, though that would not appear to address the vertical clearance problem.

COMMENT

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17. (SBU) Regardless of Prime Minister Dung's exhortations, corruption often goes unpunished and at times, is even rewarded. Only the most flagrant corruption scandals come to light and few of those implicated are held accountable. Despite its reputation for corruption, Nha Trang is the Cannes of Vietnam's Riviera and business and construction are booming.

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